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incomes commission

[General publications]

des prix et des revenus

November 16, 1970

[G18] PRICES OF BREAD IN ONTARIO

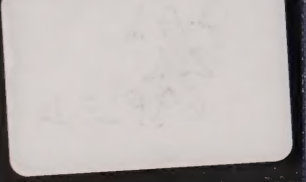
Prices and Incomes Commission

John H. Young
Chairman

Herbert G. Barrow
Commissioner

George E. Freeman
Commissioner

George V. Haythorne
Commissioner





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Prices and incomes commission

[General publications]

Commission des prix et des revenus

November 16, 1970

Following discussion with the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Control to discuss a number of a group of price problems. These members of the conference, held in Ottawa on Feb. 4-10, indicated that, in their view, Canadian business firms would be willing to exercise a moderated degree of restraint in their pricing policies in 1971. They had broad agreement that business firms generally, as called upon to do so, would reduce the number and size of price increases they would normally make in 1971.

[G18] PRICES OF BREAD IN ONTARIO

Prices and Incomes Commission

It was agreed that the Commission would keep under review the situation in the bread industry under various and wide developments in one of these industries (including the general price restraint program, appropriate relations would be sought).

John H. Young
Chairman


At a Federal-Provincial Conference of Price Ministers, held in Ottawa on Feb. 16-17, 1970, the heads of government endorsed the Commission's plan.

Bertram G. Barrow
Commissioner

George E. Freeman
Commissioner

George V. Haythorne
Commissioner

and agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the program's criteria.



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FOREWORD

Following discussions with representatives of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability to obtain a consensus on a program of price restraint. Those present at the conference, held in Ottawa on Feb. 9-10, indicated that, in their view, Canadian business firms would be willing to exercise a meaningful degree of restraint in their pricing policies in 1970. There was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover increases in costs.

It was agreed that the Commission would keep export industries under review and when developments in one of these industries impaired the general price restraint program, appropriate solutions would be sought.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

ONTARIO BREAD PRICES

Introduction

In June, 1970, four bakeries announced increases of eight-tenths of a cent in the wholesale price of a loaf of bread in Ontario. On June 17, 1970, the Prices and Incomes Commission announced its intention to undertake a review of bread prices in Ontario to ensure that the increases comply with the criteria agreed to at the National Conference on Price Stability.

The criteria are designed to be applied to the circumstances of individual companies which implement price increases. In accordance with the procedures agreed to at the national conference, the Commission has obtained detailed information from the four companies and has compiled and reviewed it.

The criteria also stipulate that 1969, or the nearest fiscal year, will in general be used as the base year when considering changes in costs and revenues and that a suitable alternative base year would be selected only if 1969 would be clearly inappropriate. This point was reviewed with the companies and it was agreed in all cases that 1969 constituted a suitable basis for comparison.

The four companies concerned are usually known as wholesale bakeries, which sell their products either house to house or through retail outlets which they do not own. Other types of bakeries which are not reviewed in this study include: Retail bakeries which sell their bread in premises owned by the bakery; chain grocery-owned

bakeries, which are owned by retail chains supplying their own retail grocery outlets; and, in-store bakeries which are usually operated in retail grocery stores.

The four companies reviewed were Canada Bread Division of Corporate Foods Ltd., Christie's Bread Division of Nabisco Ltd., General Bakeries Ltd. and Weston Bakeries Ltd. Information on financial performance, markets, prices, revenues and costs was obtained from these companies.

REVENUES AND COSTS

The emergence of the supermarket chains as a source of bread production has had a considerable effect on the bakery industry and on bread prices. Traditionally, the wholesale bakeries sold bread to a large number of outlets, with few sales per outlet and correspondingly high distribution costs.

The bakeries operated by the chain stores have a number of advantages in relation to wholesale bakeries. They have a limited number of "customers", each of which takes a large quantity of bread. Furthermore, the grocery chains have captured a high and increasing proportion of total bread sales. This development means that the chain-operated bakeries have lower distribution costs and have access to a large part of the total market through chain outlets.

Wholesale bakeries have felt this pressure and there have been several mergers and liquidations among them in recent years.

Regular bread now is sold under three categories. "Premium" label bread is sold under the brand name of the wholesale bakery, mostly on a door-to-door basis or to independent retailers. "Second" label bread is also produced by wholesale bakeries and is sold to independent stores. "Private" label bread is sold by the chain stores and is produced either by their captive bakeries or for them by wholesale bakers. This review is concerned only with Premium and Second label bread and Private label bread produced by wholesale bakeries.

Depending upon marketing areas there is a price spread of up to eight cents per loaf among the three categories. Second and Private label breads are lower priced and these brands have taken an increasing share of the market in recent years. As a result, Premium label bread now represents a significantly smaller portion of production and sales.

The Commission's review of the four companies has been conducted against this troubled background and the results obtained from each company reflect their problems. All the companies are facing large declines in profits in 1970 over 1969 and one of the companies will experience losses in 1970. Combined net profits before taxes for the four companies will be down by about two-thirds compared with 1969.

Average net profit before tax per pound of bread for the four companies combined has decreased in 1970 compared with 1969 by about four-tenths of a cent per pound. The main cost increases have taken place in distribution, materials and labor.

CONCLUSION

In the case of each of the four companies to which the criteria have been applied it is clear that increased costs have been substantially greater than the additional revenues from price increases. For this reason the companies meet the criteria.
